



Peat Marwick

Management Consultants

*Quality and experience  
for measurable results*

Manufacturing and  
Technology Industries

Financial Institutions

Insurance

Real Estate and Hospitality

Health Care

Government Services

Higher Education and  
Not for Profit

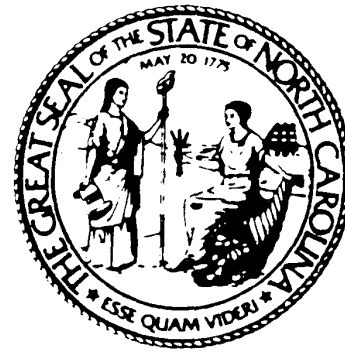
Airports

Retail and Wholesale

Energy

Utilities

Environmental



**NORTH CAROLINA  
GENERAL ASSEMBLY  
GOVERNMENT PERFORMANCE  
AUDIT COMMITTEE**

**PERFORMANCE AUDIT OF  
PURCHASING ACTIVITIES**

**Final Report  
December 1992**

December 18, 1992

The Honorable Daniel T. Blue, Jr.  
Speaker of the House

The Honorable Henson P. Barnes  
President Pro Tempore

Members, Government Performance Audit Committee

This report presents the results of our performance audit of the State of North Carolina's purchasing activities as identified in the table of contents. Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Purpose**

The State of North Carolina is a major consumer of goods and services in the State. Our performance audit reviewed the policies and procedures followed by the State in carrying out its purchasing activities to determine if they conform to the practices followed by other governmental organizations, to identify opportunities for immediate improvement, and to recommend areas with potential for improvement for study in Phase II of the performance audit.

**Background**

During fiscal year 1991, the State expended about \$1 billion for goods and services. The administration of the procurement function and activities is the responsibility of the State Purchasing Officer, who heads the Purchase and Contracts Division and who reports to the Secretary of the Department of Administration. The Purchase and Contracts Division awards large dollar amount contracts and issues statewide contracts that are available for use by all State departments and agencies and local education agencies. State agencies and departments directly procure supplies, equipment, materials, and services within the limits of their delegated authority.

**Results in brief**

The State's purchasing policies generally conform to the recommended policies of government entities. However, the State's

JK 4149 .P87 K75 1992



The Honorable Daniel T. Blue, Jr.  
The Honorable Henson P. Barnes  
Members, Government Performance Audit Committee  
December 18, 1992  
2

purchasing practices and procedures are out of date, do not promote use of innovative purchasing practices, and do not identify contracting out opportunities. Also, the time required to procure goods and services is too long and the Purchase and Contracts Division lacks information on the purchasing activities delegated to State departments and agencies.

The Purchase and Contracts Division staffing levels have remained constant although the purchasing workload has decreased.

**Recommendations** The State needs to aggressively pursue innovative purchasing practices and obtain more timely, detailed, and useful information on the purchase activities of State departments and agencies. The State acquisition of architectural and engineering services and use of multiple prime contractors need to be changed. The excess staffing of the Purchase and Contracts Division needs to be reduced or redirected to other areas, such as oversight of the purchasing activities of State agencies and departments or to development of an updated and improved policies and procedures manual.

The time required to procure goods and services needs to be reduced through elimination of routine review by originating department or agency of bids received prior to contract award and raising the dollar level of contracts that must be reviewed by the Board of Awards.

The State needs to consolidate the State and federal surplus operations and to improve the system for informing the State agencies and departments of the items available from these sources. Also, as an incentive for departments and agencies to report surplus property, they should be allowed to retain the proceeds from disposal of surplus property.

**Agency response** The Department of Administration response indicated general agreement with the findings and recommendations. However, the response indicated disagreement with the findings and recommendations on improving the contracting procedures for capital projects. Also, the response indicated disagreement with the recommendation for increasing the dollar level of contracts requiring approval of the Board of Awards.

**KPMG** Peat Marwick

The Honorable Daniel T. Blue, Jr.  
The Honorable Henson P. Barnes  
Members, Government Performance Audit Committee  
December 18, 1992

3

This report is intended for the information of the Government Performance Audit Committee and the North Carolina State Legislature. This report is a matter of public record and its distribution is not limited.

Very truly yours,

*KPMG Peat Marwick*

# STATE OF NORTH CAROLINA PURCHASING ACTIVITIES PERFORMANCE AUDIT REPORT

## CONTENTS

|          |  |            |
|----------|--|------------|
|          | <b>Executive Summary</b>   | <b>E.1</b> |
| <b>1</b> | <b>Background and methodology</b>  | <b>1.1</b> |
|          | Introduction   | 1.1        |
|          | Purchasing management alternatives   | 1.1        |
|          | Purchasing audit objective   | 1.3        |
|          | Purchasing audit approach  | 1.3        |
|          | Audit scope  | 1.3        |
| <b>2</b> | <b>The current purchasing situation</b>  | <b>2.1</b> |
|          | Introduction   | 2.1        |
|          | Methods of procurement   | 2.3        |
|          | Organization   | 2.11       |
|          | Management information systems   | 2.12       |
|          | The Board of Award   | 2.13       |
|          | Surplus operations   | 2.13       |
|          | Other general observations   | 2.13       |
| <b>3</b> | <b>Findings and recommendations</b>  | <b>3.1</b> |
|          | Finding 1 - The State should have a policy for identifying contracting out opportunities   | 3.1        |
|          | Finding 2 - The Purchase and Contracts Division needs more timely, detailed, and useful information on purchase activity of State agencies and departments | 3.5        |
|          | Finding 3 - The Purchase and Contracts Division has not aggressively pursued innovative purchasing practices   | 3.7        |
|          | Finding 4 - The State should increase the use of single prime contractors on capital projects  | 3.9        |

|   |      |
|---|------|
| Finding 5 - The State should improve the procedures for procurement of architectural and engineering (A/E) services   | 3.13 |
| Finding 6 - Purchase and Contracts Division staffing levels have remained constant although the work load has decreased   | 3.16 |
| Finding 7 - The State and federal surplus operations are duplicative and should be consolidated to reduce costs   | 3.17 |
| Finding 8 - The amount of time required to procure goods and services is too long   | 3.21 |
| Finding 9 - Term contracts result in higher prices to the State   | 3.23 |
| Finding 10 - The State has two contradictory policies on State agencies and departments purchasing goods and services from Correction Enterprises   | 3.25 |
| Finding 11 - Staff resources used to develop product standards should be redirected to more productive use  | 3.27 |
| Finding 12 - Purchase and Contracts Division is not provided clear authority to perform oversight reviews of purchase activities of State agencies and departments to ensure adherence to procurement policies and procedures | 3.29 |
| Finding 13 - Purchasing procedures are out of date and incomplete   | 3.33 |
| Finding 14 - State agencies lack useful information on available surplus property and incentives are lacking for agencies to report surplus property  | 3.36 |
| Finding 15 - The State lacks a well-targeted program for meeting its contracting goals with minority-owned, women-owned, and disabled-owned businesses  | 3.38 |

|  |            |
|--|------------|
| <b>4 Phase II recommendations/implementation</b>         | <b>4.1</b> |
| Findings that need further analysis and evaluation       | 4.1        |
| Findings that need a plan or strategy for implementation | 4.3        |

|   |   |     |
|---|---|-----|
| 5 | <b>Appendix A - Purchasing and procurement--North Carolina<br/>benchmarked against recommended policies</b> | A.1 |
|   | <b>Appendix B - State comments</b>  | B.1 |

**STATE OF NORTH CAROLINA PURCHASING ACTIVITIES  
PERFORMANCE AUDIT REPORT**

**LIST OF EXHIBITS**

|            |   |             |
|------------|---|-------------|
| <b>2-1</b> | <b>Procurement dollars spent by department</b>  | <b>2.2</b>  |
| <b>2-2</b> | <b>Purchase and contracts work flows - contracts under \$10,000 (\$25,000 University)</b> | <b>2.4</b>  |
| <b>2-3</b> | <b>Purchase and contracts work flows - contracts over \$10,000 (\$25,000 University)</b>  | <b>2.5</b>  |
| <b>2-4</b> | <b>Purchase and contracts work flows service contracts over \$10,000</b>                  | <b>2.6</b>  |
| <b>2-5</b> | <b>Purchase and contracts work flows consulting contracts</b>                             | <b>2.7</b>  |
| <b>2-6</b> | <b>Personal service contract approval process</b>   | <b>2.9</b>  |
| <b>2-7</b> | <b>Term contract bid and approval process</b>   | <b>2.10</b> |
| <b>2-8</b> | <b>Summary of vendor survey results</b>   | <b>2.16</b> |
| <b>3-1</b> | <b>Summary of awards of multi-prime (MP) and single-prime (SP) contracts</b>              | <b>3.11</b> |
| <b>3-2</b> | <b>Average number of purchase requests processed</b>                                      | <b>3.18</b> |
| <b>3-3</b> | <b>Bid process time</b>   | <b>3.22</b> |



## **EXECUTIVE SUMMARY**

Our review of the State of North Carolina purchasing practices identified 15 findings with potential for improvement. We (a) identified nine findings and recommendations with the potential to reduce the cost of goods and services, (b) identified two findings and recommendations with the potential to enhance the quality of goods and services purchased by the State, and (c) identified four findings and recommendations with the potential to improve the operating efficiency of the Purchase and Contracts Division. Of these 15 findings, one, the use of a single prime vendor, will require a change initiated by the Legislature. The remaining 14 changes can be made within the executive branch.

### **Opportunity I - Potential to reduce the cost of goods and services**

As overall State expenditures have increased and revenues have lagged, individual agency budgets have become tighter. Agency and department officials are under considerable pressure to get more "bang for the buck" out of their purchasing dollars. To achieve this goal and reduce the cost of goods and services purchased, the State of North Carolina must improve the way it purchases goods and services and apply state-of-the-art techniques currently being used by other governments and the private sector. During the performance audit we identified several specific areas that provide opportunities for the State to change the way it does business and reduce the cost of goods and services purchased. Findings in these areas include:

- The State should develop a policy for identifying contracting out opportunities. (Finding 1)
- The Purchase and Contracts Division needs more timely, detailed, and useful information on purchasing activity by State agencies and departments. (Finding 2)
- The Purchase and Contracts Division should more aggressively pursue innovative purchasing practices. (Finding 3)
- The State should increase the use of single prime contractors on capital projects. (Finding 4)
- The State should develop and improve the procedures for procurement of architectural and engineering services for design and construction management of State buildings. (Finding 5)
- The requirement in most term contracts that agencies and departments must buy all items listed via the contract results in higher prices to the State and should be waived. (Finding 9)

- The State has two contradictory policies on agencies and departments purchasing goods and services from Correction Enterprises. (Finding 10)
- The Purchase and Contracts Division should perform oversight reviews of purchasing activities of State agencies and departments on a periodic basis. (Finding 12)
- The State lacks an active program for meeting its contracting goals with minority-owned, women-owned, and disabled-owned businesses. (Finding 15)

**Opportunity II - Potential to enhance the quality of goods and services purchased by the State**

Many times, too little attention is paid to the quality of products purchased. Purchasers may accept goods and services purchased without considering the long-term costs of not demanding and receiving quality goods and services. These costs can be considerable: the administrative costs of redoing paperwork, the time and effort involved in timely inspection and return of unusable goods, and the cost associated with inefficiently performing the work of the State because of substandard goods and services. During the performance audit we identified two specific areas where the State has an opportunity to improve the quality of goods and services purchased. These areas are:

- Staff resources used to develop product standards should be redirected to more productive use. (Finding 11)
- Purchasing procedures are out of date and incomplete. (Finding 13)

**Opportunity III - Potential to increase the operating efficiency of the Purchase and Contracts Division**

With the current budget pressures facing the State of North Carolina, the State will be challenged to maintain the same levels of purchasing productivity while reducing personnel and administrative costs. To do this, the purchasing functions being performed within the State must become more operationally efficient. Our performance audit has identified several purchasing processes occurring within the State that should be improved to enhance operational efficiency:

- Purchase and Contracts Division staffing levels have remained constant although the workload has decreased. A review of staffing should be conducted to determine feasibility of reducing staffing. (Finding 6)
- The State and federal surplus operations are duplicative and should be consolidated to reduce costs. (Finding 7)

- The length of time required to procure goods and services should be reduced. (Finding 8)
- State agencies lack useful information on available surplus property and there are no incentives to report surplus property. (Finding 14)